



TSI HOLDINGS

TSI HOLDINGS CO., LTD.

Q2 Financial Results Briefing for the Fiscal Year Ending February 2023

October 13, 2022

Event Summary

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[Time]	10:00 – 11:01 (Total: 61 minutes, Presentation: 35 minutes, Q&A: 26 minutes)	
[Venue]	Webcast	
[Participants]	9	
[Number of Speakers]	4	
	Tsuyoshi Shimoji	President and CEO
	Jun Imaizumi	Senior Executive Officer/TIP Promotion Department Manager and TSI TIP Promotion Division Manager and Division Innovation Section Manager
	Hiroyuki Watanabe	Operating Officer, General Manager of Digital Business Department
	Takahiro Ishihara	Operating Officer

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Question & Answer

Moderator [Q]: Okay, let's get into the Q&A. Thank you for your support.

First, Mr. Nozawa from Daiwa Securities. We have three questions.

First of all, how do you see the overall trend of the apparel market in the fall/winter and beyond? In this context, what is TSI's policy for the fall and winter sales season?

Second, regarding NANO universe, which is currently undergoing rebranding, could you explain again the reasons for the decline in H1 and your specific policy for H2, if you are planning a recovery?

The third question is: please tell us what synergies will emerge in the future as a result of this head office relocation and consolidation of locations, such as closer proximity between each of the consolidated brands, in addition to the effect of reduced fixed costs.

First of all, regarding the apparel market in the fall/winter and beyond, Mr. Shimoji would like to reply.

Shimoji [A]: Thank you for your question. In the fall/winter season and beyond, we are focusing company-wide efforts on the development of products with more individuality and uniqueness in terms of product quality. We are also working to showcase our products in a timely manner and in a short period of time, rather than loading a large number of products into the store.

While taking into account the seasonal trends, we also create a product lineup that asserts the individuality of each brand in the TSI collection.

Moderator [Q]: Thank you very much. Then, for the second question regarding NANO universe under rebranding, Mr. Shimoji will answer the question.

Shimoji [A]: We started rebranding in H1, and our product lineup is rising thanks to the development of fashionable and fashion-forward items, as well as the improvement of the unit price and the quality of the product contents.

We also accept that this may have led to the impression of a slightly sudden price increase for our products for our customers. There are several levels there, not all products in ours did so. We are in the process of balancing the thickness of the categories along with the hierarchy, so for fall and winter, we are in the process of making all the corrections for H1 and reintroducing them. We are receiving a positive response from our customers, albeit gradually, and the remodeling of our storefront is progressing. In this sense, we believe that the situation on the store floor is becoming fresher and fresher.

Moderator [A]: Thank you very much. NANO universe is a brand with a very high EC conversion rate. So, we are now making the members of the EC team to be the members of the re-strengthening of the team. We intend to organize internal and external human resources and focus on EC-related events in H2 to achieve growth.

Continuing on, the third question. In the area of synergies between the groups in the relocation of the headquarters, Mr. Shimoji will answer this question as well.

Shimoji [A]: In our previous mid-term plan, we announced that we would consolidate our businesses into four domains. By establishing four areas, we have created four new and effective areas that will not allow brands

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to become disjointed, and that will allow each area to develop unique and in-depth products with the ability to communicate.

We are relocating our head office as a measure to further advance this area and also to be more effective from the perspective of reducing our overall costs.

First of all, we are setting up a new press room and a studio for live performances, etc., as well as creating new communication among businesses and building a direction to unite all employees as one. We are in the process of relocating and re-launching our fall move just now, in the midst of the measures that we are taking.

Moderator [M]: Thank you very much. Mr. Nozawa, does this answer questions? If you have additional questions, please unmute and speak up.

Nozawa [Q]: Thank you for your explanation. At the NANO universe, the EC team has changed a bit since H2 of last year and is being rebranded and reworked. Is it correct to say that H2 of this year's corporate plan also includes a viewpoint that the NANO universe will gradually recover compared to H1?

Shimoji [A]: It is not large, but as you say, we are working to get the market on a recovery track.

Nozawa [M]: I understand. Thank you very much. That's all from me.

Shimoji [M]: Thank you very much.

Moderator [Q]: Thank you very much. Now, from Mr. Kakuta of Jiji Press. Thank you very much.

October is reported to have been a strong month, but prices for daily necessities of rising prices continue to rise. The question is: what is the impact of declining consumption on fashion, and what are your thoughts on how to counteract it? Please answer this question, Mr. Shimoji.

Shimoji [A]: Prices are rising for many things in our living environment, including very high costs. We are not engaged in a large number of low-priced brands. It exists in some intermediate level of branding. Although our market share is said to be decreasing, we are focusing more on creativity and individuality to win the support of our customers. We do not expect any major impact on the current situation. We are also considering strengthening our dissemination of information as a measure to gain more support.

Moderator [M]: Thank you very much. Now, Mr. Kakuta, if you have any additional questions, please go ahead.

Kakuta [Q]: Thank you. If so, would you rather focus on strengthening the brand?

Shimoji [A]: Yes. You are right.

Kakuta [M]: I understand. Thank you very much.

Shimoji [M]: Thank you.

Moderator [Q]: Thank you very much. Now, how about your other questions?

Thank you, Mr. Obayashi from Nikkei.

The environment surrounding EC seems to be getting tougher. Please tell us your perception of the current situation and how you are responding to the return to real life, increased advertising costs, etc. This will be answered from Mr. Shimoji.

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Shimoji [A]: Am I correct in taking this as a response measure in advertising? Market strategies in EC are very competitive among companies. After all, what we are going to do is to specialize in how to link physical stores and EC with OMO. This allows customers to go to the store, shop in EC, and use the various locations. We want people to enjoy it within our brand. We would like to concentrate our investment and manufacturing efforts on these areas.

This will allow the brands and stores that we have so far to balance the physical store and the e-commerce store, and allow our customers to enjoy them. We would like to develop such policy.

Moderator [Q]: For the EC, I would like to ask [inaudible] from Mr. Watanabe, Executive Director, as well.

Watanabe [A]: I am Watanabe, General Manager of Digital Business Department. Thank you for your question. The EC environment is intensifying, and real stores are returning, but in fact, during the coronavirus period, the background is that we have been strengthening and enhancing the EC transfer of customers from the stores so that the customers can enjoy the EC side of the business.

Recently, with the gradual recovery of the market, coronavirus, and the society, everyone is active in physical stores. The current situation is to provide enjoyment on the store side, including inventory.

We do not consider this to have any particular impact as a whole, since our policy is to strengthen our ties with customers through both channels rather than EC channel only.

In terms of EC alone, and EC itself, there is a background in which sales have basically been generated by discounts in the past. As Shimoji mentioned, I believe that we need a strategy to differentiate ourselves by the content of our sales promotion, which is based on the premise of firm full price sales in this area.

We already have a substantial number of such full price sale campaigns in H2, and we are moving them around on our feet. In any case, our policy is to continue to strengthen and differentiate ourselves in the areas of planning, sales promotion, content, and the operations based on the assumption of full price sales in addition to exclusive sales through EC, as well as event planning.

Moderator [M]: Thank you very much. Mr. Obayashi, does this answer your question? Please voice any additional questions.

Obayashi [Q]: Thank you very much. One related point, in the EC section of the explanation at the beginning, there is a difference between brands that are able to respond and those that are not. I seem to remember that there was an explanation to the effect of that. It means that you are not able to respond to this on a company-wide basis, but rather that there is a difference in popularity among brands within the EC. What, if any, are the factors contributing to the difference? Please let me know if you can also find out.

Moderator [M]: So, this one is also from Mr. Shimoji, please.

Shimoji [A]: You are correct. The response by each brand and the content of the measures are supported or not by each customer. This is explained from the business strategy.

Moderator [M]: Mr. Ishihara, Executive Director, will also explain.

Ishihara [A]: I am Ishihara from Business Strategy. I will answer your earlier question.

After all, there is a brand that has always been good at communicating with customers on the EC side. Brands such as Arpege, which I have mentioned in this report, that have been pursuing OMO strategies in stores from a very early stage, are growing even more despite the current difficult situation.

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However, brands that were originally aimed at a slightly older or more expensive age group were a step behind as renewal stores continued to strengthen their operations. I am aware that there were some differences in the current situation in terms of strengths and weaknesses, and I have a sense that there was a slight difference here.

However, this is affected largely by soft aspect, and there are currently some differences, but as we move toward strengthen e-commerce, screen UI, and service provision in a way that will firmly raise the level of these areas. Although there were some differences among brands, we are now working to establish a company-wide system that will enable us to firmly strengthen EC. That is all.

Obayashi [M]: Thank you very much.

Moderator [Q]: Thank you very much. Now we have a question from Mr. Fujiwara of Nikkei Business.

We are seeing a return of international travelers, what are your expectations for inbound travel? This is a question about whether you are also looking to return to the domestic market. Mr. Shimoji will answer this question.

Shimoji [A]: At this point in the numerical presentation, we have not included almost any expected inbound figures. Therefore, we have high expectations that if this inbound return is firmly implemented, we will be able to see it as an added benefit.

However, we are now in a situation where things are opening up, but we will not know for sure until we open the door. However, expectations for and wander, MARGARET HOWELL, HUF, and UNDEFEATED, including feedback from overseas customers, are very high. Our domestic original brands such as LE PHIL and SANEI related brands are also increasingly being purchased through the Asian Internet, and we believe that there is a sense of expectation among our customers for such physical stores.

Also, AVIREX, which is soaring in popularity due to the movie, *Top Gun*, is also becoming very popular in neighboring foreign countries, the US, we accept that this will be very effective in the situation where we have existing customers.

Moderator [Q]: Thank you very much. Since Mr. Fujiwara is now on the move, if you have any additions, please fill in the Q&A here.

Next, we have Mr. Motohashi from WWD.

PEARLY GATES in the golf market is doing very well. He asked how you see the future market and brand potential for PEARLY GATES. This is also from Mr. Shimoji, please.

Shimoji [A]: In terms of the golf market, we have seen a large number of young female customers entering the market. In this context, the percentage of upswings in the women's portion of the golf brands, including our brand, Jack Bunny!! and other golf brands, the percentage of women's wear in the golf brand category is very high.

Therefore, I think there is a sense of hope that the base of golf customers has expanded considerably, and that the number of new customers has also increased.

Since the oversea trip hasn't started yet, so there might be some change in the future, but we will continue to expand the enjoyment of golf by organizing events, and we will also promote the enjoyment of golf to young children, young women, and men. We believe that there are high expectations for our events, as the age range is getting younger and younger.

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For our part, our brands, including our own PEARLY GATES, are gaining more and more presence in Japan, and are becoming one-of-a-kind. We are planning to open new stores and expand into overseas markets in the next fiscal year.

Moderator [M]: Okay, Mr. Motohashi, any additional questions?

Motohashi [Q]: Thank you. I understand that you are thinking of expanding PEARLY GATES overseas, but if you have any specific areas you would like to attack, please let us know.

Shimoji [A]: First of all, we have the Asian region, and we also have the United States. We are thinking of starting with the mecca of golf, overseas, where the golf industry is well established.

Motohashi [M]: Thank you very much.

Shimoji [M]: Thank you very much.

Moderator [Q]: Thank you very much. I apologize for one point. I received a question from Mr. Fujiwara's about whether you are considering returning to the domestic market in spite of the continuing weak yen and high raw material prices, and our answer to this question was omitted. I am terribly sorry.

Shimoji [A]: My apologies. Regarding retuning to domestic market due to high raw material prices, we are operating factories, so we are trying to increase the ratio of domestic production as much as possible. Therefore, we are taking action.

Therefore, as for your question, we will be returning to the domestic market as one of our very useful measures. The Company will continue to move forward. Naturally, we also have connections with overseas suppliers, and we are in the process of studying and implementing ways to link this with our domestic operations.

Moderator [M]: Thank you very much.

Moderator [Q]: Now, we will continue with a question from Mr. Nagamatsu of Senken Shimbun.

This is a question regarding the progress of utilizing Sitateru Inc. It's about the production of the existing brands, about the possibility of Sitateru and a network, and about the [inaudible] matter that has already started. Mr. Imaizumi, Senior Executive Officer, will reply to you. Thank you for your cooperation.

Imaizumi [A]: My name is Imaizumi. Thank you very much. As to your question, we have recently entered into a business and capital alliance with Sitateru Inc. and are currently considering collaboration with our D2C/F2C brands, including hueLe, as you mentioned.

In addition, we are currently working with Sitateru on the assessment of our factories, in Yonezawa and Miyazaki, to make them mother factories, and are considering the next generation of production schemes.

In addition, we are currently considering new collaborations between existing customers of Sitateru and ourselves. We will make a separate announcement when a new policy is decided.

Moderator [M]: Thank you very much. Now, Mr. Nagamatsu, if you have any additional questions, please voice them.

Nagamatsu [Q]: Earlier, I think Mr. Shimoji mentioned that you are going to increase the domestic ratio, but how much should I be aware of? For example, what percentage of department store brands would that be, and how should we take that into account?

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Underlying [A]: We do not give a definite index at this stage. In short, it is a very transitional period. Although we are not able to provide numerical figures at this stage, the reality is that our factories, as well as those of other companies, are quite crowded compared to those that can be produced domestically with a certain degree of quick turnaround time. To a certain extent, we would like to elaborate and grasp the situation, but we would like to build up enough momentum to be able to handle everything under our own brand name.

Nagamatsu [M]: I understand. Thank you very much.

Moderator [A]: Thank you very much. As a supplementary note, the composition of domestic production was 15.1% in Q2 of the previous fiscal year and 19.6% in Q2 of this fiscal year, up 4 percentage points. Please note that these figures are for brands in areas where the system is standardized, not for all brands.

Mr. Nagamatsu, does this answer your question?

Nagamatsu [M]: Thank you.

Moderator [M]: Thank you very much. Okay, now that we've reached our time, if you have any additional questions, I will accept at least one more question. We are also happy to arrange individual IR meetings. Please contact us and we will make arrangements.

Now that we have reached the end of our time, we will conclude the Q2 financial results briefing. Thank you very much.

Shimoji [M]: Thank you very much.

[END]

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